

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

May 20, 2003

FREQUENTLY ASKED QUESTIONS ABOUT THE FEDERAL BUDGET

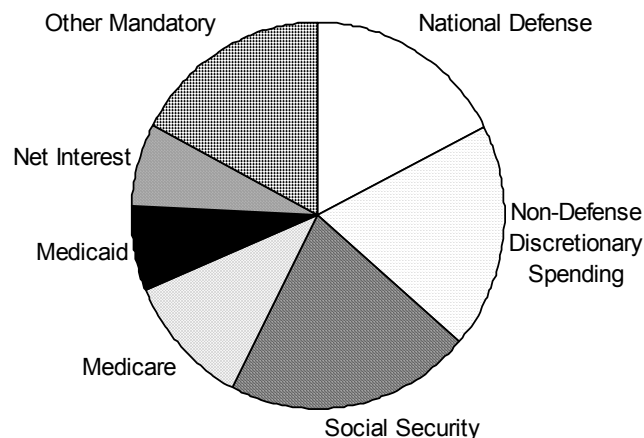
The following pages use the most recent data available to answer many frequently asked questions about the budget. Unless otherwise specified, all years referred to in this document are fiscal years. Fiscal year 2003 ends on September 30, 2003. For definitions of budget terms, see the glossary on the House Budget Committee Democrats' web site (www.house.gov/budget_democrats).

1. What is the projected total spending in the U.S. budget for 2003?

According to March figures from the Congressional Budget Office (CBO), federal government spending (including Social Security) for 2003 is projected to be \$2.137 trillion. "On-budget" spending, which excludes Social Security and net spending of the Postal Service, is estimated to be \$1.768 trillion. "Off-budget" spending, primarily Social Security, is estimated to be \$369 billion.

The figures do not include the spending resulting from the supplemental appropriations act that the President signed on April 16, 2003. That act contained \$79 billion in budget authority for the war in Iraq, homeland security, and other purposes. CBO estimates that the act will result in \$42 billion in additional spending (outlays) in 2003.

Federal Spending in 2003 by Major Category



<u>Major Categories of Spending - Estimated 2003 Outlays*</u>		<u>Percentage of</u>
<i>*does not include 2003 supplemental appropriations</i>	<u>Dollar Amount</u>	<u>Federal</u> <u>Budget</u>
Discretionary spending:		
Defense	\$386 billion	18 percent
Non-Defense	\$418 billion	20 percent
Entitlements and other “mandatory” except net interest:		
Social Security benefits	\$469 billion	22 percent
Medicare (net of premiums)	\$245 billion	11 percent
Medicaid	\$158 billion	7 percent
Other (e.g., Civil Service and Military Retirement, SSI, EITC, Veterans’ Benefits, etc.)	\$381 billion	18 percent
Miscellaneous receipts that offset spending (not including Medicare premiums)	\$-75 billion	-4 percent
Net interest	\$155 billion	7 percent

2. How much tax revenue is the federal government expected to collect in 2003?

In March, CBO estimated that total federal government revenues would be \$1.891 trillion in 2003. Since CBO’s March estimate, however, receipts in the crucial spring tax filing season have been weaker than expected. For instance, total receipts in the month of April alone are estimated to be about \$5 billion lower than a year earlier. In 2002, the federal government collected \$1.853 trillion in revenues.

3. What is the estimated budget deficit for 2003?

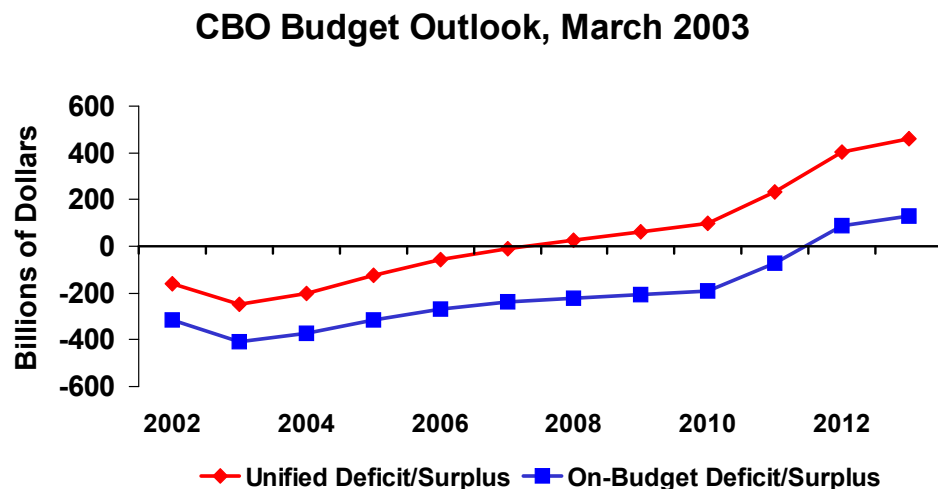
In March, CBO projected that the total budget deficit for 2003 would be \$246 billion (revised from its January projection of \$199 billion). The on-budget accounts, which exclude Social Security and net spending of the Postal Service, would run a deficit of \$408 billion, after running a deficit of \$317 billion in 2002. The off-budget surplus, predominantly from Social Security, would be \$163 billion. These CBO figures are baseline projections, which assume no further changes in policy. The deficit picture worsens if additional policy changes, such as the tax cuts and spending proposals the President favors, are factored in. If the President’s proposed budget were adopted, the total deficit would be \$287 billion in 2003.

The budget outlook has worsened considerably since March. In its *Monthly Budget Review* dated May 9, 2002, CBO wrote that the 2003 deficit would be over \$300 billion because of weaker-than-projected revenues and additional outlays of more than \$40 billion from the supplemental appropriations act enacted in April. CBO is scheduled to issue updated figures by the end of August.

Financial markets — one of the most important arbiters of the budget’s credibility — have already come to the conclusion that deficits will be much larger than the official projections suggest. For instance, Goldman Sachs currently is advising its clients that budget deficits will exceed \$400 billion per year for the foreseeable future.

4. What are the CBO projections about deficits and surpluses over the next ten years?

In March, CBO projected that the total (or “unified”) budget would improve from its \$246 billion budget deficit in 2003 to a \$200 billion deficit in 2004. After that, CBO projected slowly shrinking deficits, with the first unified surplus arriving in 2008 and a surplus of \$96 billion in 2010. Thereafter, assuming that the 2001 tax cuts were allowed to expire at the end of 2010, the surplus would jump to \$231 billion in 2011, \$405 billion in 2012, and \$459 billion in 2013. The cumulative total surplus over 2004-2013 would be \$891 billion.



CBO projected that the on-budget deficit (which excludes Social Security and net spending of the Postal Service) would be \$408 billion deficit of 2003 and would improve to a \$373 billion deficit in 2004, with slow improvement to a \$190 billion deficit in 2010. Over 2004-2013, CBO projected the cumulative on-budget deficit would be \$1.678 trillion.

Again, the CBO projections detailed above are baseline projections, which assume no changes in tax or spending policy. The deficit picture would worsen if the President’s budget were enacted, making the total deficit \$1.820 billion over ten years (2004-2013), and the on-budget deficit \$4.389 billion over the same period.

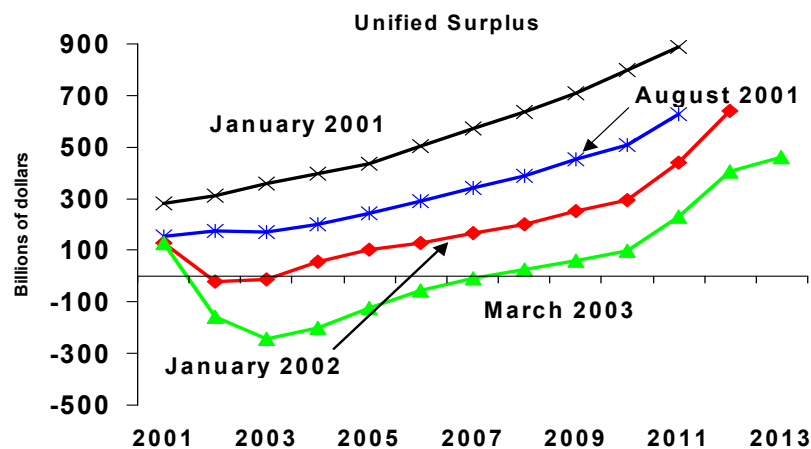
In addition, these figures do not include the budgetary effects of the supplemental appropriations act signed into law in April 2003 to cover the cost of the war with Iraq and other needs. That new spending (about \$79 billion) and the weakening of revenues since March will

surely impact the early years of the outlook in an adverse and significant way. Enactment of new tax cuts (or extension of tax cuts set to expire in 2010) would worsen these projections.

5. Didn't past budget projections call for large surpluses? What happened?

Two years ago, both CBO and the President's Office of Management and Budget (OMB) projected total budget surpluses of \$5.6 trillion over the ten years 2002-2011. However, the Administration proposed, and the Republican Congress enacted, a tax cut costing \$1.7 trillion (including debt service) over 2001-2011.¹ Over the first eight years of that ten-year period, this tax cut exhausted virtually all of the then-projected surpluses outside of Social Security and Medicare. The economy fell into recession, worsening the budget further.

The Budget Outlook Has Deteriorated Drastically Since 2001



Also affecting the surplus projections have been technical developments, perhaps driven by the falling financial markets, which have shown that the original surplus estimates were far too optimistic. These developments now indicate strongly that Democrats were correct to question the wisdom of committing all of a projected surplus to a large tax cut. However, the Administration and the Republican Congress chose to ignore those warnings, and the unfortunate results now appear likely to plague the country for the indefinite future.

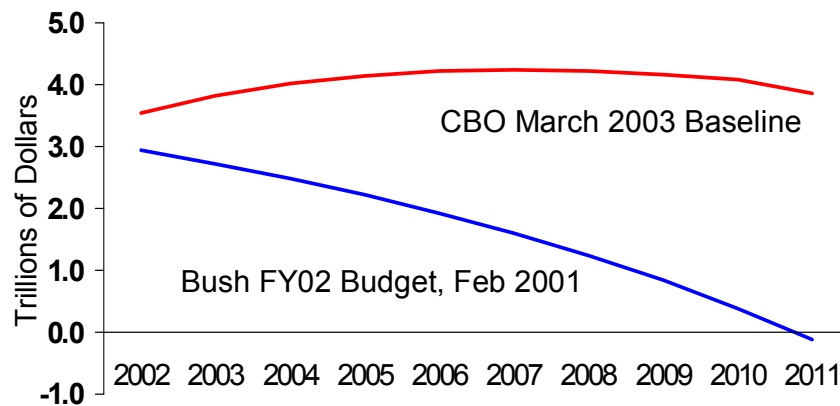
6. What is the estimated federal debt?

In March, CBO estimated that federal debt held by the public would be \$3.816 trillion at the end of 2003 (not including the effects of the 2003 supplemental appropriations act). However, since the deficit for 2003 will likely be higher than estimated in March, the amount of debt held by the public at the end of the year will also be higher. Early in the Bush

¹ The stated cost of the 2001 tax cut was reduced by including an improbable expiration date at the end of 2010.

Administration, both CBO and OMB projected that the federal government would pay off practically all of the publicly held debt within ten years. However, after the enactment of Republican tax cuts, the weakening of the economy, and the war against terrorism, CBO now projects no significant decrease in the amount publicly held debt.

From Debt-Free to \$3.9 Trillion in Publicly Held Debt in 2011



Source: CBO,OMB

7. What is the debt limit and why does it need to be increased again in May 2003?

The statutory limit on federal debt, which applies to the sum of publicly held debt and securities held in government trust funds, is currently \$6.40 trillion. In 2001, the Administration projected that the statutory limit on debt would not be breached until 2008, even with its proposed tax cuts. However, the debt outlook has deteriorated significantly since 2001 because of the reappearance of budget deficits.

In June 2002, Congress passed, and the President signed, a bill raising the debt limit from \$5.95 trillion to \$6.40 trillion. Because of continuing economic weakness and spending associated with the war in Iraq, the federal government soon ran up against the new, higher limit. Since February, the Treasury Secretary has been avoiding a breach of the statutory debt limit only by extraordinary measures, including dis-investing the retirement trust funds for federal employees. Even after the biggest tax-collection month of the year in April, the Treasury Department has announced that it will have to resort to such extraordinary measures again by late May.

8. Who are the true big spenders, Republicans or Democrats?

Republicans. Republicans have increased appropriations by 67.6 percent since 1995, the last year Democrats had control of Congress and the White House. Total appropriations increased from \$501.4 billion for 1995 to \$840.5 billion for 2003 (which includes the cost of the

2003 supplemental for the war), providing an annual rate of increase of 6.7 percent. As shown in the box to the right, the Republican President and Congress have overseen double-digit increases in total appropriations for the last three years.

In contrast, appropriations actually decreased in the years when Democrats controlled both the Congress and the White House (1994 and 1995). Total appropriations dropped from \$523.0 billion for 1993 (the last budget under President G.H.W. Bush) to \$501.4 billion for 1995 (the last year Democrats controlled Congress). From 1993-1995, Democrats oversaw an overall 4.1 percent reduction in appropriations.

9. How large is the estimated Social Security Trust Fund balance?

In March, the annual report of the Social Security's trustees stated that the Social Security Trust Fund held \$1.378 trillion in special Treasury securities at the end of calendar year 2002. These securities represent a standing legal claim on the U.S. Treasury to pay Social Security benefits in the future.

<u>Fiscal Year</u>	<u>Billions of Dollars</u>	<u>Versus Prior Year</u>
Democratic Appropriations		
1993	523.0	n.a.
1994	512.6	-2.0%
1995	501.4	-2.2%
Republican Appropriations		
1996	501.0	-0.1%
1997	511.2	2.0%
1998	529.6	3.6%
1999	581.8	9.9%
2000	584.4	0.4%
2001	663.8	13.6%
2002	734.7	10.7%
2003	840.5	14.4%

According to the most recent projections of the Social Security Trustees, the cost of Social Security benefits under current law will begin to exceed Social Security tax revenues in 2018. In 2028, the Social Security Trust Fund will begin to run an annual deficit, as the cost of benefits will exceed both Social Security revenues and interest earned on the bonds in the Social Security Trust Fund. By 2042, the bonds in the Social Security Trust Fund will have been exhausted, and the Social Security Trust Fund will be insolvent. However, in that year and for the indefinite future, Social Security would be able to pay between 70 and 75 percent of benefits promised by today's law with expected tax revenues.

10. What is the cost of Medicare?

In 2003, federal spending for Medicare benefits (net of premium receipts) is estimated to be \$245 billion. According to the 2003 Medicare Trustees Report, Medicare spending under current law will begin to exceed Medicare revenues in 2013. In 2018, the Hospital Insurance (HI) Trust Fund will begin to run an annual deficit as the cost of benefits will exceed both Medicare revenues and the interest earned on the bonds in the HI Trust Fund. The trustees estimate that the HI Trust Fund will be insolvent by 2026, four years earlier than the previous year's projection.